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SUBJECT: FOOD AND FUEL PRICE INCREASES IN AUGUST
RAISE ONE-MONTH INFLATION RATE TO 10.5 PERCENT

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1. (SBU) SUMMARY: Led by a 78 percent increase in fuel and electricity prices and a 12 percent increase in food prices, consumer prices rose 10.5 percent in August after falling in July by 2.6 percent. The twelve-month increase in the index from August 2004 through August 2005 was 42 percent, up from 33 percent from July 2004 through July 2005. A year ago after comparative stability in the first seven months of the year, consumer prices increased sharply August through January. The concern is that the sharp increase in prices in August 2005 may be following the year-ago pattern.
END SUMMARY.

2. (SBU) The Ministry of Planning's consumer price index indicates that the general level of prices increased 10.5 percent in August following a decrease of 2.6 percent the previous month. Relative to twelve months earlier, the price level in August had increased 42 percent. A year earlier the consumer price index increased 38.5 percent August through January and accounted for almost all of the annual inflation increase. Iraqi CPI figures cover both official and black market prices on items and services.

3. (SBU) A table measuring percent changes in components of the COSIT consumer price index in August relative to the preceding month and a year earlier has been emailed to NEA/I/ECON Martin. The table also records weights for each commodity class used in calculating the index. The Food weight is extraordinarily high at 63 percent. In July there was a substantial decline in food prices and it was the major factor accounting for the decrease in the overall index by 2.6 percent. In August food prices bounced back and along with major increases in transport and communications prices as well as fuel and electricity prices were the major contributors to the significant percentage gain in the index. There was an error in last month's GOI data with respect to fuel and electricity prices that had not decreased relative to a year earlier but rather had risen. A corrected July table is also being e mailed to NEA/I/ECON.

4. (SBU) COMMENT: The Iraq consumer price index increased 13.8 percent during the first eight months of 2005 well above the 5.8 percent increase in the consumer price index during the same months in 2004. There is heightened concern that the price level stability of the first seven months of 2005 might again be followed by rapid price increases August through January as occurred in 2004. We note the year-to-year 179 percent increase in fuel and light costs, a sensitive item as the GOI gears up for reducing fuel price subsidies in 2006.
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